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Testimony from Lindsay Farrell, Connecticut state director of the Working Families Organization in OPPOSITION to **SB446** AA Repealing the Estate and Gift Taxes.

Senator Fonfara, Representative Berger, Senator Frantz, Representative Davis and the members of the Finance, Revenue, and Bonding:

Working Families is a growing progressive political organization that fights for an economy that works for all of us, and a democracy in which every voice matters. We believe that our children's life chances must not be determined at birth, and that America must be a nation that allows all its people to thrive.

I would like to express out strong opposition to this legislation, which would repeal the estate and gift taxes. Connecticut has two chronic problems:

1. Grotesque income and wealth inequality, and the highest inequality in the nation, as reported in the Hartford Courant roughly a year ago.[1] We have the highest threshold for families in the 1%, at an individual income of $677,608, and that top 1% accumulated 63.9% of all income growth between 1979 and 2007. Fairfield County's rate of inequality is ranked just below Guatemala's, according to Bloomberg Business.[2]
2. For the last several years, the state has experienced routine budget shortfalls, and has cut the programs that low-income and middle-class families rely on. Our budget was made lean long ago, but an unwillingness to hold the wealthiest taxpayers in Connecticut accountable for their fair share contributes both to these budget problems, and to the distribution of wealth upwards described in the point above.

This bill makes both of these problems worse.

The estate tax is one of the most sensible taxes, and directly addresses our income and wealth inequality problem. It is directed to the wealthiest 2% of families, and is tied more to ability to pay than any other tax we have. It also has no relation to merit, as passing on

[1] http://www.courant.com/data-desk/hc-report-connecticut-income-gap-highest-in-the-nation-20150206-htmlstory.html
[2] http://www.bloomberg.com/news/articles/2012-07-05/connecticuts-ribbon-of-hardship

property earned by a parent goes to children who did nothing to earn it. A cut to this tax would just be a giant tax break for the richest individuals in this state, and there is no evidence whatsoever that this kind of policy results in the creation of jobs, higher wages for workers, or increased economic stability for the state.

Furthermore, we simply cannot afford any cuts in revenue, and this legislation effectively forces such policy. Earlier this week, the Governor announced more rescissions, mostly impacting the Department of Developmental Services, the Department of Mental Health and Addiction Services, and the Department of Social Services. There have been calls for more cuts, and thousands of layoffs. Every dollar of state spending results in $1.31 in economic activity, according to economist Mark Zandi of Moody's Economy.com, and 62% of those dollars flows to private sector economic activity.[3] Other economists have estimated multipliers of between 1.7 to 2.1 from state government spending.[4] In reverse, cuts have a stifling effect on the local economy, and layoffs are especially damaging as they impact middle class families' ability to pay mortgages, spend disposable income, remain independent from public services, and contribute to tax roles.

Every further cut and each future layoff will wreak further hardship to Connecticut's economy. The challenging economic climate that working families are coping with does not need to be permanent, but if we continue to refuse solutions that include revenue it will be.

Please consider not only increasing this tax, as they are considering doing in New York currently, but these other policies which address Connecticut's budget woes for the long term and tackle our outstanding income and wealth inequality:

- Join the Regional Compact to close the carried interest loophole: There is currently legislation introduced in New York calling for a compact between Northeastern states to tax highly-compensated hedge fund managers and private equity managers in a way that is more like how the rest of us have our income taxed. These individuals invest other people's money, and then benefit from a loophole that was created to incentivize them to take risk themselves. This policy could generate as much as $535 million annually, and creates no competitive disadvantage, as our neighboring states would be doing the same thing.

- Tax the richest individuals at rates similar to how they are taxed in neighboring states: Connecticut's top rate is 6.7% on couples making more than $500,000 per

[3] Mark Zandi, "An Analysis of the Obama Jobs Plan," September 2011, Moody's economy.com, http://www.economy.com/dismal/article_free.asp?cid=224641&tid=F0851CC1-F571-48DE-A136-B2F622EF6FA4&src=economy_homepage

[4] Daniel Shoag, "The Impact of Government Spending Shocks: Evidence on the Multiplier of State Pension Returns," June 2011, Harvard University Economics Department, http://www.people.fas.harvard.edu/~shoag/papers_files/shoag_jmp.pdf.

year. This is significantly lower than New York's top rate of 8.82% and New Jersey's 8.97%. Massachusetts has a 12% capital gains tax.

- Hold large, profitable low-wage employers accountable with a fee for paying their workers poverty wages: such as is done with SB391. This legislation reimburses taxpayers for the "externalization" of employment costs perpetrated by these corporations, and incentivizes these corporations to pay their workforce a decent wage. Working Families believes in a strong, well-funded safety net for the families who are suffering in this economy, but we don't believe that safety net should be exploited by profitable companies so that they can make more in profits.

Inequality is a driving force behind the slow economic growth we have here in Connecticut, so please don't make it worse with this bill. Without more revenue, not less, our economic woes will only become solidified and exacerbated. Every dollar you cut through SB 446 and other policies that exclusively benefit the rich, is pain felt by low income and middle class families through service cuts, increased fees, and layoffs. Please take a more equitable approach to these policies.